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SUBJECT: MOZAMBIQUE: AGOA ELIGIBILITY REVIEW

Ref: State 163056

11. Country Background Summary: Between October 2005 and October 2006 the Government of the Republic of Mozambique (GRM) continued to make progress in establishing a market-based economy, eliminating barriers to US trade and investment, reducing poverty, promoting democracy, and protecting workers' rights. This positive trend should continue, especially as Mozambique begins to benefit economically from higher levels of international trade and investment, and deepen its trade ties with the United States under the Bilateral Investment Treaty (BIT) and Trade and Investment Framework Agreement (TIFA).

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Comments on Eligibility Requirements  
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12. Market-based Economy

1A. Major Strengths Identified  
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-- Mozambique continues to have one of the most dynamic and fastest-growing economies in sub-Saharan Africa, although the growth is from a very low base.

-- Mozambique's decade-long commitment to sound macroeconomic policies and structural reform, supported by substantial donor assistance, has led to a significant improvement in economic performance.

-- GDP growth between 1995 and 2005 averaged 8.4 percent, with the growth rate in 2005 estimated at 7.7 percent by the World Bank. The average GDP growth rate for 2005 through 2009 is currently projected to be 7.3 percent.

-- Inflation fell from 9.1 percent in 2004 to 6.3 percent in 2005, according to the World Bank. (Other measures show higher rates.)

-- These continuing achievements were facilitated by a stable political situation, as illustrated by the smooth transition in February 2005 to a new administration following the 2004 presidential and parliamentary elections.

-- Mozambique encourages foreign direct investment, and CPI, the government's Investment Promotion Center, actively assists potential new foreign direct investors in Mozambique.

-- Foreign investors participated without significant impediments in Mozambique's privatization program.

-- Private investors continue to manage and rehabilitate the main ports of Maputo, Beira, Nacala and Quelimane through concession agreements.

-- The Nacala Corridor Development project, in which a U.S. firm has a significant holding, continued operating and rehabilitating the railroad and port system on a key transport route between Malawi and Mozambique. This project is supported by an OPIC loan worth USD 30 million.

-- The Brazilian Companhia Vale do Rio Doce (CVRD) began to explore its concession area, a massive coal deposit in the Moatize region of central Mozambique, and is anticipated to begin exporting coal in 2007. The project is also expected to result in the construction of a coal-fired power plant, with the bulk of the electricity exported to South Africa.

-- Mozambique retained its international credit rating of B/B+ by Fitch Ratings, reflecting Mozambique's positive track record on economic reforms, political stability, strong economic growth, openness to FDI, and expanding exports. The most recent rating was published in July 2006.

-- Although still small, U.S.-Mozambican trade is expanding, with the vast majority of Mozambique's exports to the US entering under either AGOA or GSP. Mozambique's 2005 exports under AGOA and GSP provisions were valued at USD 8.3 million, representing more than 80 percent of the country's total exports to the United States.

-- Numbers from the first half of 2006 suggest that Mozambique's 2006 exports under AGOA and GSP provisions will show significant growth from 2005.

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-- South Africa is Mozambique's single largest trading partner. The EU is a significant market for Mozambican exports.

-- In 2005 the top five foreign direct investors in Mozambique were South Africa, the United Kingdom, Zimbabwe, Portugal and Sweden.

-- Mozambique is an active member of the Southern African Development Community (SADC).

-- In October 2006, the Mozambican government and USTR held the first Trade and Investment Council meeting under the Trade and Investment Framework Agreement signed in June 2005. The continuing bilateral dialogue bodes well for increased AGOA-related trade and investment in the future.

-- The GRM recognizes the importance of removing a number of obstacles to private sector development. To this end, steps are being taken to reduce the cost of doing business in Mozambique, address rigidities in the labor market, and improve basic infrastructure.

-- The "one-stop shops" for business registration were expanded to eleven locations, covering all provincial capitals. Current government plans call for additional expansion to district-level capitals.

-- In December 2005 the National Assembly approved major revisions to the Commercial Code - the result of a collaborative effort starting in 1998 between the Mozambican government, the private sector and donors.

-- A revision to the current Labor Law was presented to the General Assembly in September 2006. This revision represents an attempt by the government to address the rigid labor legislation.

-- A joint private/public sector task force on IPR had some

successes in 2005-2006 stemming the flow of illegal products into the local market.

### 13. Market-based Economy

#### 1B. Major Issues/Problems Identified

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-- Approximately a dozen large state-owned or operated companies remain, in the following sectors: telecommunications, electricity, insurance, oil and gas exploration, port and rail, airlines and airports, water supply, and fuel distribution.

-- Continued work is needed to streamline company registration processes and to share information about regulations and procedures between the private sector and government agencies, particularly in the area of trade facilitation.

-- The GRM has worked with the private sector to improve intellectual property rights protection via a joint task force, but continues to have little ability to investigate crimes or enforce IPR laws.

-- Access to capital continues to be a challenge in the business environment. Private ownership of land is not allowed in Mozambique. The government instead grants land-use concessions for periods of up to 50 years, with options to renew. The land-use concessions are not allowed to be used as collateral, making it difficult to obtain financing via the banking community.

-- Several companies continue to struggle with VAT reimbursement delays, with the Mozambican government hampered by income stream and red-tape issues. Additional work is needed to improve reimbursement turn-around time and streamline the overall process.

### 14. Political Reforms/Rule of Law/Anti-Corruption

#### 1A. Major Strengths Identified

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-- Mozambique has made significant progress in the consolidation of democracy since the signing of the 1992 Rome Peace Accord that ended sixteen years of civil war.

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-- Mozambique has a democratically elected government.

-- In December 2004 Armando Guebuza, secretary-general of the ruling Frelimo party, was elected president with 64 percent of the vote, compared to 32 percent for his nearest competitor.

-- The election was generally considered free and fair, but was marred by some irregularities, which did not affect the outcome of the presidential election or control of the national assembly.

-- The political opposition retains 36 percent of seats in the national assembly and holds five mayorships, including that of Beira, the nation's second-largest city.

-- In 2004 the National Assembly passed a new Anti-Corruption Law, aimed at curbing corruption in government offices, the police force, hospitals and the schools.

-- In August 2005 the Attorney General formally announced the creation of the Central Office for the Combat of Corruption (GCCC), which replaced the Anti-Corruption Unit (UAC) as Mozambique's primary corruption fighting office.

-- In October 2006 the Attorney General announced that the

GCCC had forwarded 17 new cases to the courts.

## 15. Political Reforms/Rule of Law/Anti-Corruption

### 1B. Major Issues/Problems Identified

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-- Though President Guebuza has repeatedly emphasized his desire to wage a serious campaign against corrupt government practices, corruption remains a problem and continues to undermine Mozambique's democratic consolidation and economic growth.

-- Mozambique's judiciary continues to be under-trained, understaffed and susceptible to pressure from high-ranking government officials and bribery by private parties. However in recent years the number of trained attorneys and judges in Mozambique has risen significantly, giving hope for a more professional judiciary in the future.

-- Freedom House's Freedom in the World index ranks Mozambique "Partly Free" (3,4).

-- Mozambique ranked 99 out of 158 countries on Transparency International's 2005 Corruption Perceptions Index.

## 16. Poverty Reduction

### 1A. Major Strengths Identified

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-- The GRM has placed poverty alleviation at the head of its policy agenda.

-- Mozambique has made tangible progress in this area, reducing poverty rates from 69 percent in 1996 to 54 percent in 2004.

-- Mozambique's second Plan for the Reduction of Absolute Poverty (PARPA II), covering the period of 2006-2010, was launched in June 2006. The PARPA II aims to reduce, by 2009, the percentage of the population living below the poverty line from 54 percent to 45 percent. The new plan maintains many of the same priorities of PARPA I, including emphasis on more training in the education and health sectors, strengthening good governance, developing basic infrastructure and improving macro-economic and financial management.

-- In 2005-2006, the donor community funded approximately 50 percent of the national budget. The HIPC and Enhanced HIPC (Heavily Indebted Poor Countries) debt relief programs have permitted increased budgetary support to alleviate poverty, including long-term investment in health, agriculture, basic infrastructure, and education.

## 17. Poverty Reduction

### 1B. Major Issues/Problems Identified

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-- Illiteracy and infant mortality rates in Mozambique remain among the highest in Africa. In 2005 the illiteracy rate was estimated at around 55%, while, in 2004, the mortality rate for children under five was 151.6 per 1,000 children.

-- Life expectancy dropped to just over 40 years (41.8 in 2004), and is expected to continue to decline into the 30s by 2010 as the result of HIV/AIDS.

-- The country also lacks infrastructure, electric power, and clean water for most of its citizens.

-- HIV/AIDS is a growing problem, with infection rates increasing to a national average of over 16 percent of the sexually active population.

-- Education is compulsory through the age of 12, but enforcement of compulsory education laws is inconsistent, due to the lack of resources and the need for additional schools.

## 18. Workers' Rights/Child Labor/Human Rights

### 1A. Major Strengths Identified

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-- The Constitution provides that all workers are free to join or refrain from joining a trade union, and workers enjoy these rights in practice.

-- The Organization of Mozambican Workers (OTM-Central Sindical), an umbrella organization for 13 trade unions representing workers at 1,470 companies, reports just over 103,000 union members among its affiliates.

-- The smaller Confederation of Free, Independent Trade Unions (CONSILMO), representing four trade unions, has approximately 57,000 unionized members.

-- In 2006 the GRM increased the country's statutory minimum wage by 13 percent, somewhat above the 2005 inflation rate.

-- Mozambique has ratified ILO Convention 105 on forced labor and ILO Convention 182 on the worst forms of child labor.

-- In 2003 a revised family law was adopted that increases the status of women.

-- Professional training for new police officers increased.

## 19. Workers' Rights/Child Labor/Human Rights

### 1B. Major Issues/Problems Identified

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-- In part because a very small percentage of the workforce is employed in the formal economy, less than two percent of the workforce was covered by collective bargaining contracts.

-- Mozambique's current labor law is very rigid; however a proposed draft was submitted to the General Assembly in the fall of 2006. This revision is an attempt to address the current rigid labor legislation, although what form the final version will take is still not known.

-- Mozambique stands out in the southern Africa region as having one of the most pro-worker, anti-employer labor laws - a significant impediment to foreign investment.

-- Although labor unions are exerting significant pressure on the government to keep many of the law's provisions, the private sector is pushing for more flexible legislation to promote increased investment.

-- Labor unions, created during the socialist years, continue to lack resources, remain relatively weak and are disengaging themselves from the ruling party, FRELIMO.

-- The Government's human rights record, while improving, remains poor; although there were some significant improvements in a few areas, serious problems remained.

-- Prison conditions remained life-threatening.

-- Security force members beat and abused detainees.

-- Mozambique is ranked a Tier II country by the Department's annual Trafficking in Persons report. Mozambique is a source country for women and girls trafficked for the purpose of sexual exploitation. The Government of Mozambique does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Mozambique currently has no law explicitly prohibiting the trafficking of humans.

-- Exploitation of children under the age of 15 and child prostitution remains a concern.

-- Child labor remains a problem in Mozambique. A 2003 study estimated that one-third of children between ages 10 and 14 were economically active. This is largely the result of children working in the informal or agricultural sectors, including family farms, rather than children being used as laborers in the formal industrial sector, something that rarely happens.

-- Children orphaned by HIV/AIDS are often forced to work because they are left without any adult family members to support them.

#### 10. U.S. National Security Concerns/Gross Human Rights Violations

-- No Major Strengths or Major Issues/Problems Identified.

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